

# Macro Insights

18 August 2022

## CPI drops to 6.71% but above the upper limit of Reserve Bank of India

Ministry of Statistics and Programme Implementation (MOSPI) has released the monthly statistics on Consumer Price Index (CPI) for July 2022. Retail inflation drops to 6.71% in July 2022 from 7.01% in the previous month i.e. June 2022. CPI inflation stood at 5.59% in July last year.



Retail inflation drops to 6.71%.

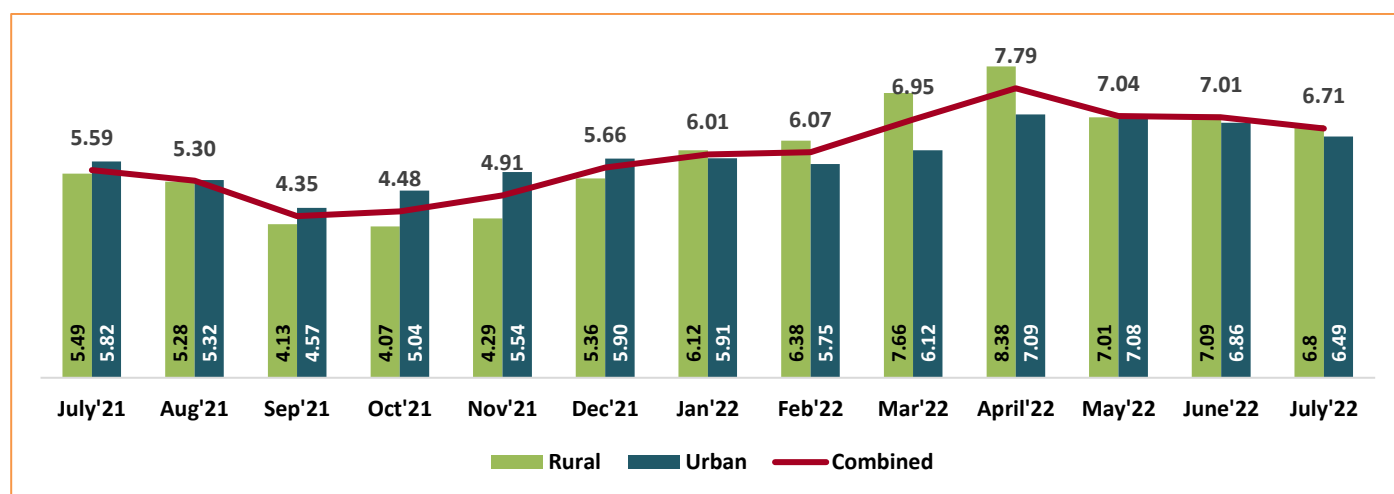


CPI inflation stood at 5.59% in Jul'21



It is expected that the headline inflation is likely to remain at Jul'22 level in the coming month Aug'22.

Chart: Consumer Price Index (CPI)



## Highlights:

- This is the seventh month in a row that the pace of price rise has been over the upper tolerance limit of 6% pursued by the central bank's monetary policy committee.
- While inflation in edible oils, meat and fish and vegetables relented in July, price rise in fruits and eggs accelerated, and cereals inflation hit a multi-year high of 6.9% amid worries about wheat supplies as well as a drop in domestic sowing of rice.
- Rural inflation eased from 7.09% in June to 6.8% in July, while urban consumers faced a price rise of 6.49% from 6.86% in June. The reprieve on food prices was offset by non-food inflation which rose to 6.7% from 6.5% in June.
- Inflation for housing and pan, tobacco and intoxicants remained stable at a low level, but fuel and light, as well as clothing and footwear rose further from already elevated levels.

Table: Components of CPI

|        | Food and beverages |             | Pan, tobacco and intoxicants |             | Clothing and footwear |             | Housing |             | Fuel & Light |              | Miscellaneous |             | General |             |
|--------|--------------------|-------------|------------------------------|-------------|-----------------------|-------------|---------|-------------|--------------|--------------|---------------|-------------|---------|-------------|
| Weight | 45.86%             |             | 2.38%                        |             | 6.53%                 |             | 10.07%  |             | 6.84%        |              | 28.32%        |             | 100%    |             |
|        | 2021               | 2022        | 2021                         | 2022        | 2021                  | 2022        | 2021    | 2022        | 2021         | 2022         | 2021          | 2022        | 2021    | 2022        |
| May    | 5.24               | <b>7.84</b> | 10.03                        | <b>1.15</b> | 5.32                  | <b>8.85</b> | 3.86    | <b>3.71</b> | 11.86        | <b>9.54</b>  | 7.25          | <b>6.82</b> | 6.30    | <b>7.04</b> |
| June   | 5.58               | <b>7.56</b> | 3.98                         | <b>1.83</b> | 6.14                  | <b>9.52</b> | 3.75    | <b>3.93</b> | 12.38        | <b>10.39</b> | 7.21          | <b>6.28</b> | 6.26    | <b>7.01</b> |
| July   | 4.46               | <b>6.71</b> | 4.71                         | <b>1.78</b> | 6.39                  | <b>9.91</b> | 3.86    | <b>3.90</b> | 12.61        | <b>11.76</b> | 6.71          | <b>5.91</b> | 5.59    | <b>6.71</b> |

**Views:**

- The increase in fuel inflation despite government measures to curb domestic petrol and diesel prices taken a few months ago, is a concerning factor.
- Currently, the global crude and commodity prices have corrected, this should further soften inflation in India in the coming months.
- However, rupee depreciation which increases the import costs and the fall in crop yields due to uneven monsoon this year poses near term risk to inflation in India,
- Following are the latest inflation projections given by RBI in its Monetary Policy:

| RBI Projection | Q2FY23 | Q3FY23 | Q4FY23 | FY23 | Q1 FY'24 |
|----------------|--------|--------|--------|------|----------|
| CPI Inflation  | 7.1%   | 6.4%   | 5.8%   | 6.7% | 5.0%     |

- It is expected that the headline inflation is likely to remain at July level in the coming in the month of August 2022 as well. It is also likely that inflation will remain above the upper band of 6%.

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